

Tennessee Regulatory Authority

**For the Years Ended
June 30, 1999, and June 30, 1998**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Charles K. Bridges, CPA
Assistant Director

Debra D. Bloomingburg, CPA
Audit Manager

Kimberly D. White
In-Charge Auditor

Andrew Hawkins
Roshena May
Staff Auditors

Amy Brack
Editor



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

June 19, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Melvin Malone, Chairman
The Honorable Lynn Greer, Director
The Honorable Sara Kyle, Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Regulatory Authority for the years ended June 30, 1999, and June 30, 1998.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of Tennessee Regulatory Authority's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Regulatory Authority is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit resulted in no findings.

We have reported other less significant matters involving the authority's internal controls and/or instances of noncompliance to Tennessee Regulatory Authority's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
00/053

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Regulatory Authority
For the Years Ended June 30, 1999, and June 30, 1998

AUDIT SCOPE

We have audited the Tennessee Regulatory Authority for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenues, expenditures, equipment, payroll and personnel, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The audit report contains no findings.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Regulatory Authority
For the Years Ended June 30, 1999, and June 30, 1998

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	1
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	3
Revenues	3
Expenditures	3
Equipment	4
Payroll and Personnel	5
Financial Integrity Act	5
PRIOR AUDIT FINDINGS	6
Resolved Audit Finding	6
OBSERVATIONS AND COMMENTS	7
Title VI of the Civil Rights Act of 1964	7
APPENDIX	7
Division and Allotment Code	7
Funding Sources – Fiscal Year Ended June 30, 1999	8
Funding Sources – Fiscal Year Ended June 30, 1998	8

Tennessee Regulatory Authority

For the Years Ended June 30, 1999, and June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Regulatory Authority. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

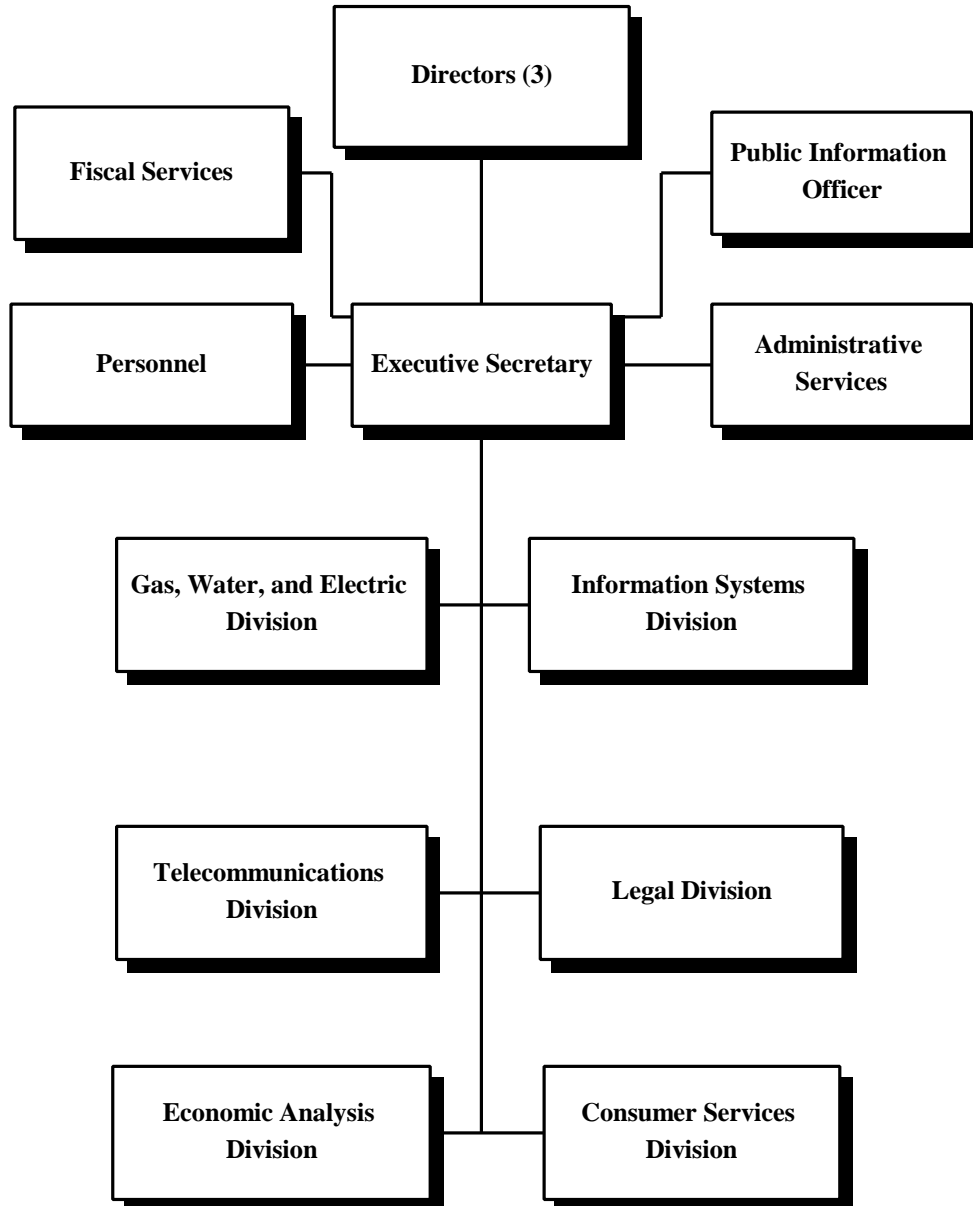
BACKGROUND

The Tennessee Regulatory Authority is governed by three directors. One is appointed by the Governor, one by the Speaker of the Senate, and one by the Speaker of the House of Representatives. Each director serves a six-year term. The authority has jurisdiction over public utilities including electric companies, telephone companies, water companies, and natural gas companies. This jurisdiction includes approving all rates; auditing the utilities’ compliance with applicable laws, orders, and policies of the authority; and inspecting natural gas pipelines. An organization chart of the authority is on the following page.

AUDIT SCOPE

We have audited the Tennessee Regulatory Authority for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of revenues, expenditures, equipment, payroll and personnel, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

**TENNESSEE REGULATORY AUTHORITY
ORGANIZATION CHART**



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUES

The objectives of our review of revenue controls and procedures were to determine whether

- transactions were recorded accurately in the accounting records and were properly documented,
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year,
- utility and gas safety inspection fees were properly calculated,
- receipts were issued for all cash received,
- cash-receipting duties were properly segregated, and
- financial records were reconciled with the State of Tennessee Accounting and Reporting System (STARS).

We interviewed key personnel to gain an understanding of the authority's procedures and controls over revenues. We also reviewed supporting documentation and tested samples of revenue transactions. We had no findings related to revenues; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

EXPENDITURES

The objectives of our review of expenditures controls and procedures were to determine whether

- expenditures were for goods or services received during the fiscal year;
- expenditures for goods or services were properly recorded in STARS;
- expenditures for goods or services were properly approved and in accordance with the budget and other regulations or requirements;
- expenditures for goods or services were recorded for the correct allotment code, cost center, transaction code, object code, budget category, and amount;
- payments were made within 45 days of the receipt of the invoice;
- accounting records were reconciled with STARS;

- expenditures for travel were in accordance with regulations;
- contracts were made in accordance with regulations;
- contract payments complied with contract terms and purchasing guidelines;
- encumbered funds were liquidated for the same purpose as the original encumbrance; and
- access to STARS and the Tennessee On-Line Purchasing System (TOPS) was limited to those persons whose job duties required it.

We interviewed key personnel to gain an understanding of the authority's procedures and controls over expenditures. We also reviewed supporting documentation and tested samples of expenditure transactions. In addition, we reviewed listings of employees who had access to STARS and TOPS. We had no findings related to expenditures; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

EQUIPMENT

The objectives of our review of equipment controls and procedures were to determine whether

- property and equipment in the Property of the State of Tennessee (POST) system represented a complete and valid listing of the cost of assets purchased and physically on hand;
- costs associated with sold, abandoned, damaged, or obsolete fixed assets had been removed from POST;
- property and equipment were adequately safeguarded;
- equipment leased from the Office for Information Resources (OIR) was properly accounted for; and
- all expenditures charged to object 099 and 16x have been added to POST.

We interviewed key personnel to gain an understanding of the authority's procedures and controls over equipment. We also reviewed supporting documentation and tested samples of equipment transactions. In addition, we reviewed listings of employees who had access to POST. We had no findings related to equipment; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

PAYROLL AND PERSONNEL

The objectives of our review of payroll and personnel controls and procedures were to determine whether

- payroll disbursements were made only for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;
- payroll was recorded correctly as to amount and period and was distributed properly to account, fund, and budget;
- employees were qualified for their positions;
- performance evaluations were completed in the time period required;
- temporary employees who were retirees of the Tennessee Consolidated Retirement System were employed in compliance with Section 8-36-805, *Tennessee Code Annotated*;
- access to the State Employee Information System (SEIS) was limited to those persons whose job duties required it;
- payroll and personnel duties were adequately segregated; and
- payroll changes were properly approved.

We interviewed key personnel to gain an understanding of the authority's procedures and controls over payroll and personnel. We also reviewed supporting documentation and tested samples of payroll and personnel. We had no findings related to payroll and personnel; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

The objectives of our review of the Tennessee Regulatory Authority's compliance with the Financial Integrity Act were to determine whether

- the authority's June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report were filed in compliance with the Financial Integrity Act of 1983;
- documentation to support the authority's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were adequate; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the report to gain an understanding of the authority's procedures. We also reviewed the supporting documentation for these procedures and the June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letter and internal accounting and administrative control report were submitted on time, and support for the internal accounting and administrative control report was adequate.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Regulatory Authority filed its report with the Department of Audit on June 21, 1999. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Tennessee Regulatory Authority has corrected a previous audit finding concerning noncompliance with the Financial Integrity Act.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Tennessee Regulatory Authority filed its compliance reports and implementation plans on June 29, 1999, and June 30, 1998.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

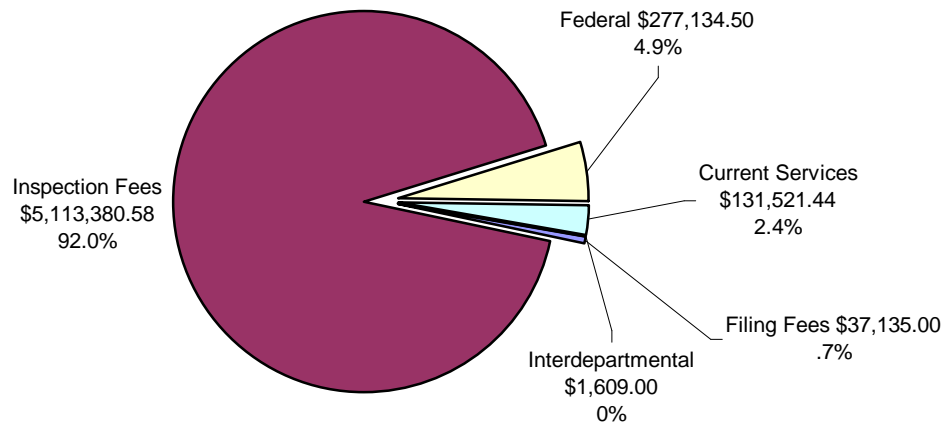
APPENDIX

DIVISION AND ALLOTMENT CODE

The Tennessee Regulatory Authority has one division and allotment code: 316.11.

Funding Sources

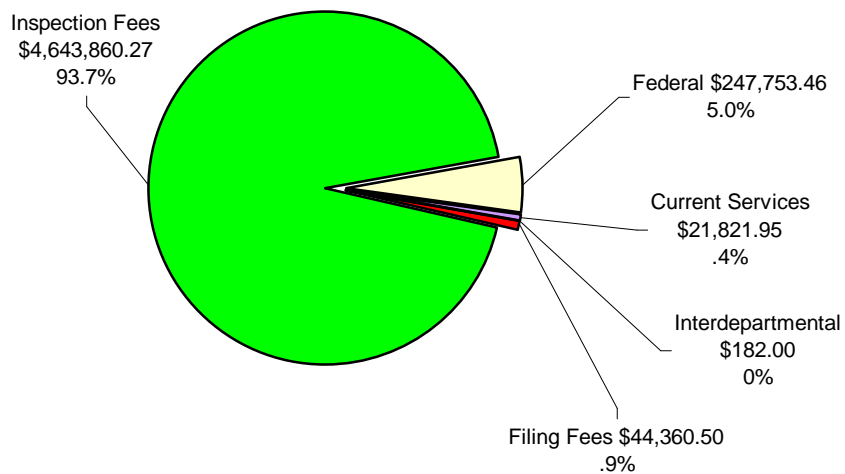
Fiscal Year Ended June 30, 1999 (unaudited)



Source: Tennessee Regulatory Authority

Funding Sources

Fiscal Year Ended June 30, 1998 (unaudited)



Source: Tennessee Regulatory Authority